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**From:** Boris Nikolic  
**Sent:** Sat 10/29/2011 7:40:20 PM  
**Subject:** FW: China and the Euro Rescue

My friend is usually sending me period updates re financial markets etc. Some are good – some are bad.

I will send you some that might interest you

B

#### China Is Asked for Investment in Euro Rescue

<http://www.nytimes.com/2011/10/29/world/asia/europe-seeks-chinese-investment-in-euro-rescue.html>

My thoughts:

China is looking at Europe and seeing it say to creditors of a member state, you will take a "voluntary" haircut of 50% on what is owed.

Oh, and anyone who bought CDS protection on a sovereign default, well that voluntary step is not a default, so the insurance you bought is worthless.

Oh, and Germany won't guarantee the debt with its balance sheet more than amounts already in, but you should.

Oh, and the ECB won't print money since Germany won't let it. The ECB as they buyer of last resort for sovereign debt? Nien!

Oh, and Italy is run by ..... And the EU has zero power to stop them from being fiscally suicidal. Berlusconi: "No one in the E.U. can nominate themselves commissioner and speak in the name of elected governments. No one can give lessons to E.U. partners." That's why the Euro is fundamentally broken. You can't separate fiscal and monetary policy. Full stop.

Oh, and Ireland and Portugal may want the same concession the Greeks got.

\* The deal foresees a further leveraging of the bloc's EFSF rescue fund to give it firepower of 1 trillion euros. Is that enough?

RBS believes it is not:

This is no doubt a large sum but too small in our view to restore confidence for good. To put this number in perspective, **if EFSF was to continue buying Italian and Spanish bonds at the same pace as that of the ECB, this would give only 2 years of purchasing power, assuming no other country would require help from the EFSF.**

The bank also flagged some problems with the methods aimed at raising those funds. The EFSF will be leveraged either by offering insurance or first-loss guarantees to purchasers of euro zone debt in the primary market, or via a special purpose investment vehicle that will be set up in the coming weeks and which is aimed at attracting investment from China and Brazil. RBS continues:

The SPIV version of the EFSF is more promising than the insurance option which we continue to consider as too complex and potentially dangerous.

10% first loss protection when creditors were strong armed into writing off 50% (which is not enough)?

Oh, the Euro is up a bit late this week because European banks are selling the family jewels for dollars and converting them into Euros since they are insolvent.

Regarding "recapitalizing" Euro banks:

As part of their agreement, European governments therefore will force their banks to "raise new capital," presumably from private investors. If the latter do not show up, then whose money would do the "European recapitalization," and on what terms?

<http://economix.blogs.nytimes.com/2011/10/28/what-does-recapitalizing-banks-actually-mean/>

Who would invest in Euro banks right now? These banks can barely sell covered bonds. This new capital was already going to be needed under Basel III anyway.

Italian debt is trading at the same high levels even after this goofy announcement made Thursday AM and that may cause a spin into a death spiral negative feedback loop. Italy's borrowing costs hit new euro-era highs at a bond auction on Friday. "The 6.06 percent yield paid at an auction of 10-year bonds was the highest since the launch of the euro, and not far from the level reached before the European Central Bank intervened in August to cap."

The idea that Europe is going to find "investors" to lever up the 250M remaining Euros in the "stability fund" 4/5 X is an insane delusion. Maybe 2X with steep ugly terms. Europe is dealing with loan sharks right now not patsies.

Are you going to be buying any Italian debt soon even at 6%+? Not me. When is anyone ever going to buy Greek debt? It could be decades. Aand the greek debt is still 120% of GDP even assuming 50% write off and full participation in the voluntary event. How will Greece roll over their existing debt? How will the banks or Italy do so?

China may invest \$100 bill or so with full guarantees from say Germany and France. Oh, and China will want trade restrictions ended (WTO) and a host of other concessions such as intellectual property rights. Oh, and Germany would have to have a vote on that guarantee.

China would see this as a business deal- not aid. Even Norway says that:

Norway, however, whose \$572 billion oil fund is Europe's biggest investor in equities, said it had less than 100 million euros in EFSF investments and would not invest in any euro zone rescue schemes that had elements of aid in them.

Finally, the loan could even be denominated in appreciating Chinese currency not Euros.

RobinBHardingRobin Harding

No idea could be more stupid - or more symptomatic of decline - than Europe borrowing from China in renminbi. <http://www.ft.com/intl/cms/s/0/7505d210-00ba-11e1-8590-00144feabdc0.html#axzz1c5YWXXsU>

Other than those things, it is a fine plan. Just ducky.